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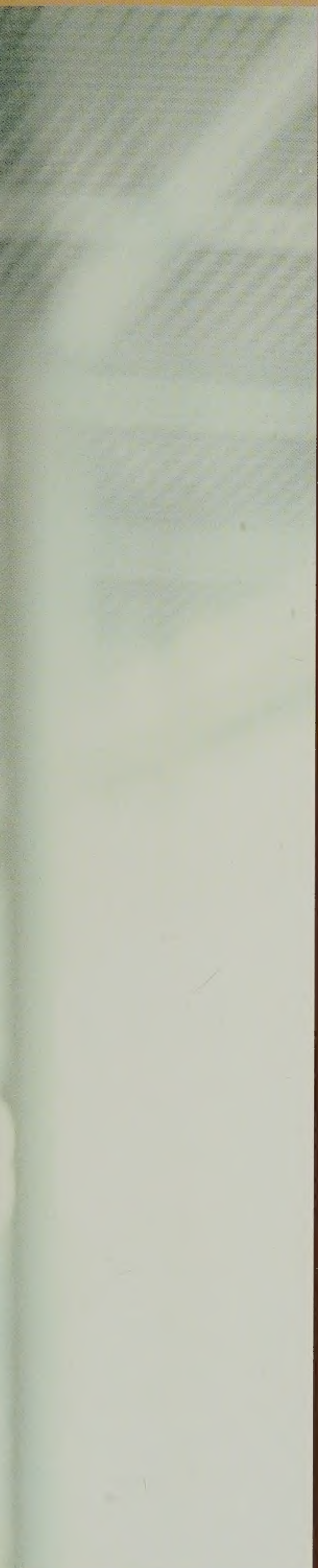
EXPERIENCE THE POWER OF LIVEBUSINESS

DATAMIRROR ANNUAL REPORT 2002

ABOUT DATAMIRROR

DataMirror (Nasdaq: DMCX; TSE: DMC) delivers LiveBusiness™ software solutions that let customers integrate data in real-time across their enterprises. DataMirror's comprehensive product family unlocks *the experience of now™* by providing the instant data access, integration and availability customers demand today across all computers in their business. Over 1,500 companies use DataMirror software. Real-time data drives all business. DataMirror is headquartered in Toronto, Canada and has offices worldwide. DataMirror has been ranked in the Deloitte and Touche Fast 500 as one of the fastest growing technology companies in North America.



LIVEBUSINESS IS MORE THAN JUST TECHNOLOGY.

It's a fundamental shift in the way people and organizations do business. It's real software solutions that solve real business problems. It's keeping information integrated and available in real-time so that employees, decision makers, partners and suppliers are in the loop 24/7. It's making real connections with people down the hall, across the country and around the globe. It's getting the answers you seek in seconds rather than hours or days. It's transforming your business into a real-time enterprise so you can compete more effectively in today's economy.

IT'S ALL ABOUT LIVEBUSINESS.

LIVE

WITH THE CHAIR

By any measure, Fiscal 2002 was a solid year for DataMirror. In a year of considerable turmoil in the high technology market, DataMirror extended the scope of its solution offerings through two strategic acquisitions and achieved traction with innovative new solutions such as LiveAudit for monitoring the security of corporate data assets and Pervasive Gateway, a solution providing mobile connectivity to SAP. The Company received industry accolades and reached the milestone of over 1,500 customers worldwide. Nigel Stokes, Chairman and CEO, discusses DataMirror's accomplishments, market focus and future direction.

NIGEL, CAN YOU START OFF BY DISCUSSING DATAMIRROR'S FINANCIAL RESULTS AND ACHIEVEMENTS FOR THE YEAR?
Revenue for the year ended January 31, 2002 was $55,739,000. Adjusted net income (excluding the pro rata share of losses resulting from the Company's investment in PointBase, Inc. and amortization of intangibles) for the year ended January 31, 2002 was $1,692,000 or $0.15 per share. Cash flow from operations for the year was $15,313,000 or $1.33 per share compared to $3,461,000 or $0.30 per share for the prior fiscal year. Cash flow continues to be positive and our balance sheet is strong with almost $36.5 million in cash and short-term investments.

All four of our core business solutions – LiveIntegration™, LiveResiliency™, LiveAudit™ and LiveCapture™ – continue to resonate in the marketplace. The number of new customers investing in DataMirror solutions increased in Fiscal 2002. DataMirror added over 170 new customers for the year including Dillard's, Inc., Pharmacia, Verizon Wireless, First American Bank, the French Navy and NBC. In addition to the growth of new customer adoption, DataMirror also saw established customers extend their implementations of DataMirror technology to enable new business initiatives across their organization. We also saw increasing interest in our mainframe integration solutions throughout the year.

We believe the need for real-time solutions that help companies manage, monitor and protect their corporate data has created a growing opportunity for our innovative software solutions.

WASN'T DATAMIRROR ALSO THE RECIPIENT OF A NUMBER OF INDUSTRY AWARDS?
The Company achieved wide industry recognition and acclaim throughout the year. For the second consecutive year, DataMirror was ranked as one of the fastest growing technology companies in North America on the 2001 Deloitte & Touche Technology Fast 500 and was named to *Software Magazine*'s Annual Software 500. *Profit* magazine recognized DataMirror in the Profit 100 as one of Canada's fastest growing companies.

DataMirror also received a UK Information Management 2001 Award for the implementation of its Constellar® Hub software at Energis, one of the UK's leading telecommunications and IT solutions providers. After assessing a year's worth of coverage, research and reader feedback, the editors of *Intelligent Enterprise* magazine named DataMirror "A Company to Watch" in 2002. The readers of *DM Review* magazine recognized DataMirror as one of the top 100 business intelligence software vendors in the DM Review 100. A number of leading analysts including MetaGroup and Aberdeen also took notice of the Company's accomplishments and profiled DataMirror in fiscal 2002.

CAN YOU TALK ABOUT DATAMIRROR'S GLOBAL STRATEGY?
Throughout the year, DataMirror took further steps to establish itself as a true global organization. In September 2001, DataMirror hosted its fourth annual User Conference at its worldwide headquarters in Toronto. Customers, analysts, media and business partners participated in hands-on technical workshops, customer case studies and open forums on key business issues. In February 2002, over 100 guests attended the opening of our new European headquarters in central London. The new European HQ can be easily reached by rail from the whole of Europe and provides expanded training and product demonstration facilities. DataMirror also began offering its on-line knowledge base in a variety of languages including French, German and Spanish to better serve our worldwide customer base. The ability to provide high quality technical support in different languages is key to ensuring all of our customers around the world receive the same exceptional customer experience.

DATAMIRROR HAS FORMED ALLIANCES WITH SEVERAL TECHNOLOGY COMPANIES AND SOLUTION PROVIDERS. CAN YOU DISCUSS YOUR ALLIANCE STRATEGY?

Leaders choose leaders. Industry-leading companies continue to partner with us where product synergies exist that offer customers a complete business solution. We remain strongly committed to our longstanding relationship with IBM and other partners. In addition, we have forged new partnerships that we hope will help further differentiate DataMirror in the market and deliver value to customers.

Over the last year, DataMirror joined the BEA Star Program to provide a BEA-Ready XML solution and partnered with Business Objects to help position the company as a data integration leader in an increasingly crowded technology market.

In April 2002, DataMirror announced new iCluster™ software for EMC Symmetrix, one of the world's leading storage management software suppliers, and joined the EMC Developers Program. DataMirror's application-aware LiveResiliency software is integrated with EMC's system and storage replication solutions. Together, the EMC and DataMirror solutions will help customers achieve the highest possible levels of availability and resiliency on IBM iSeries systems.

The Company signed a strategic alliance with SSA Global Technologies, a worldwide provider of enterprise solutions and services with 6,500 client implementations, to provide DataMirror's LiveAudit solution as the preferred E-Records audit trail solution for its global customer base.

To further strengthen DataMirror's position in the U.S. government sector, DataMirror signed a reseller agreement with Science Applications International Corporation (SAIC), the largest employee-owned research and engineering firm in the United States. SAIC brings a concentration of customers in the U.S. federal government sector and telecommunications industry, and holds major contracts with the U.S. Department of Energy and Department of Defense.

The Company also signed a reseller agreement with Nissay Information Technology Co., Ltd. of Japan, a leading provider of systems integration, network-related and outsourcing services to clients in the insurance and financial services, health care and medical services industries.

Going forward, we will continue to expand our global reseller network and focus on forming and maintaining strong alliances.

WHAT CONTRIBUTIONS DID DATAMIRROR MAKE TO THE MARKET DURING FISCAL 2002?
Through the development of several innovative new software solutions and the acquisition of both BDI Systems, a provider of XML-based integration technologies, and mobile computing solutions for SAP from saipx Inc., DataMirror greatly expanded the breadth of its business solutions.

The BDI Systems acquisition enabled us to rapidly bring to market two innovative XML solutions. Transformation Server™ for XML is a breakthrough real-time solution that enables businesses to capture business events such as the posting of purchase orders or issuing of invoices from any application database and send it in industry standard XML formats across the enterprise and beyond. DB/XML Transform™ is a powerful XML solution that enables customers to rapidly and cost-effectively integrate data between XML, EDI, database and text formats to achieve better business communications.

The saipx acquisition added mobile device connectivity and SAP expertise to our product portfolio. Pervasive Gateway™ is a client-server software solution that extends SAP functionality to remote users by allowing them to execute ERP transactions from mobile devices. Business applications of Pervasive Gateway include warehouse and shop floor operations, time and attendance, inventory and asset management, transportation management, service/sales force automation and CRM.

Synapse™ Mobility offers out-of-the-box connectivity to SAP with same-day implementation and zero consulting required – something that's virtually unheard of in the SAP market. The product enables highly effective inventory and asset management on a hand-held device to reduce errors and enhance accuracy and productivity.

Building on our high availability expertise, DataMirror introduced iReflect™ resiliency software that mirrors Oracle database transactions in real-time from a primary system to a recovery system for business continuity, disaster avoidance and recovery. iReflect provides the 24/7 Oracle data access and availability required to ensure superior customer service and competitiveness. iReflect also enables companies to achieve new efficiencies and cost-savings by effectively distributing data and system workload.

The combination of these products provides customers with a complete solution spanning mainframes, midrange servers, desktop computers and mobile devices. Our leadership, uniqueness and innovation lie in our ability to provide a comprehensive end-to-end solution that encompasses just about every kind of integration technology.

DATAMIRROR HAS RECEIVED A LOT OF INTEREST IN ITS LIVEAUDIT TECHNOLOGY. CAN YOU TELL ME ABOUT THIS SOLUTION AND WHY IT IS MAKING SUCH AN IMPACT?
LiveAudit is an exciting new business solution that addresses a growing need by many commercial and public sector organizations to monitor the security of their data assets and meet E-Records mandates imposed by regulators. For example, the E-Records regulations of the U.S. Food and Drug Administration require all FDA regulated companies to use computer-generated, time stamped audit trails to ensure the integrity of systems storing FDA-related records. LiveAudit captures historical database information and transactional details that would otherwise be overwritten. LiveAudit can track any changes made to an application database as well as the time the change was made and the identity of the user. Beyond meeting the E-Records requirements of regulated companies, LiveAudit can be deployed across a range of industries including financial services, government, e-Business and retail to combat fraud, enhance security and accountability, and improve customer service levels.

VHAT TRENDS DO YOU SEE EMERGING IN THE NFORMATION TECHNOLOGY MARKET OVER THE NEXT)NE TO TWO YEARS? HOW ARE YOU POSITIONING YOUR SOLUTIONS TO ADDRESS THESE TRENDS?

Veb Services is a strong emerging market. Web Services romises to provide a way to more easily and cost-effectively xchange, transform and access corporate data on many lifferent incompatible systems. The Web Services concept ises the Internet and an open set of standards based on (ML as the common data interchange format. As companies nvest in Web Services and move toward more complex nline business transactions, real-time XML-driven solutions ke ours will play an increasingly important role. As ompanies implement Web Services, they will still face the hallenge of integrating existing relational databases, EDI nfrastructures and text formats with XML, and this is where ur real-time data integration solutions excel. DataMirror is ommitted to making Web services work for customers and o establishing itself as a Web Services pioneer through the nnovative application of XML.

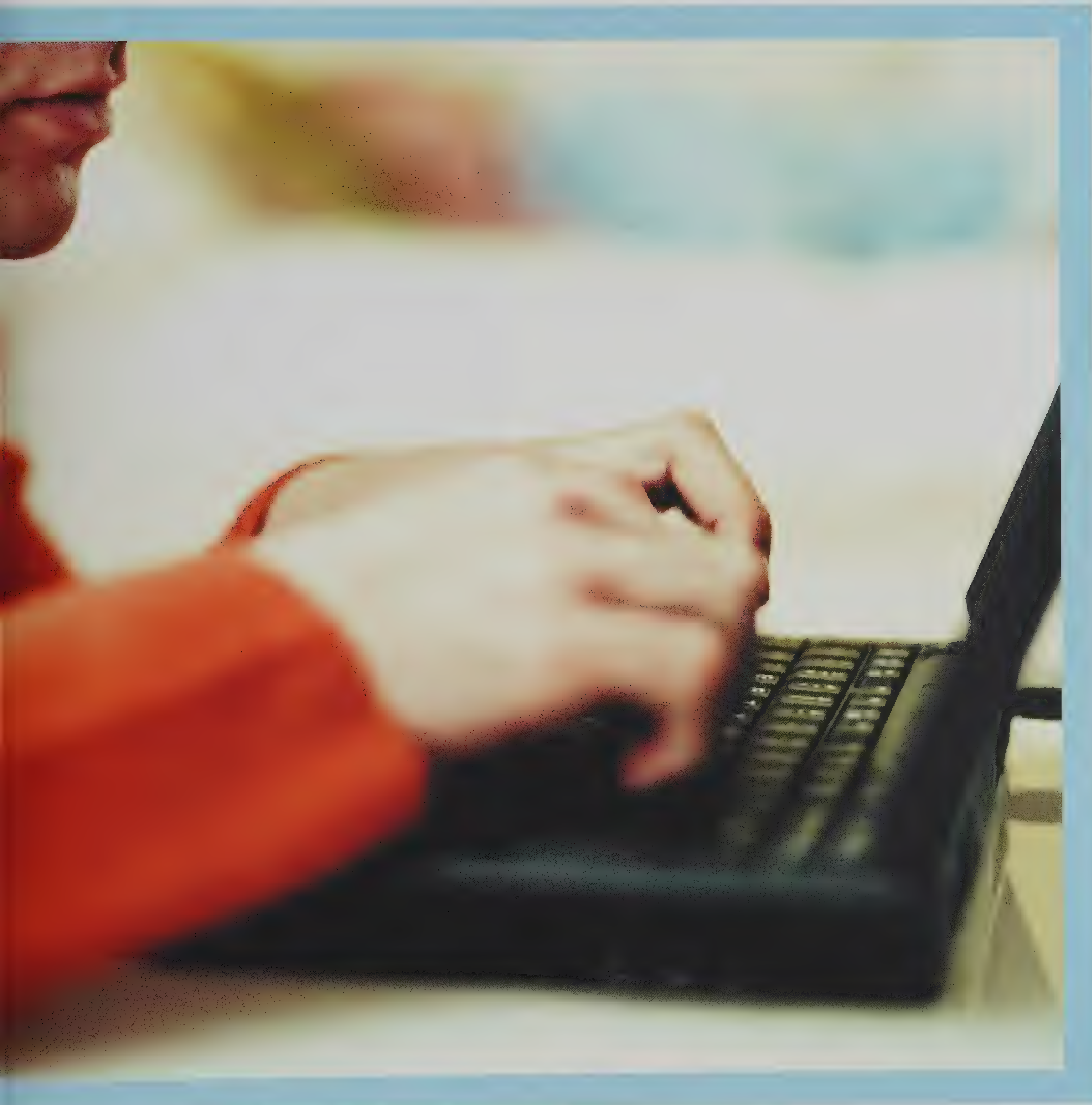
)ur traditional markets continue to show steady growth. E-business and real-time business intelligence are maturing nd these will continue to be strong drivers of our iveIntegration solutions. Employees, decision makers, artners and customers are no longer content to wait. They vant real-time access to information like pricing updates, rder status, inventory and business metrics and they want t now. Security and high availability are top-of-mind for ompanies and this enhanced awareness is driving the doption of our LiveResiliency and LiveAudit business olutions. We also see a lot of potential in the global market or turnkey LiveCapture solutions for SAP that extend core SAP functionality and enable cost-effective device connectivity.

THANKS, NIGEL. DO YOU HAVE ANYTHING TO ADD?

DataMirror's business continues to be strong and resilient. Without real-time communication of information across an organization and beyond, companies are at risk of lagging behind their competition. Customers continue to invest in DataMirror because we help them solve real business challenges and compete more effectively in today's economy. Looking ahead, we will continue to help companies deliver real-time information to everyone who needs it. Many thanks to our employees, customers, business partners and investors for sharing in and committing to our corporate vision.

AT THE CORE OF LIVEBUSINESS

DataMirror's LiveBusiness framework includes four key business solutions at the core of all business environments – LiveIntegration, LiveResiliency, LiveAudit and LiveCapture. The result is a comprehensive end-to-end solution that helps companies integrate, protect and monitor their corporate data. When companies choose DataMirror LiveBusiness solutions, they're making an investment in a total packaged solution that includes software, professional services and global support.



LIVEINTEGRATION

LiveIntegration connects people to real time flows of information so they can make better business decisions faster. When your computer systems, applications and databases are integrated and available in real time, your organization can focus on driving business, delivering enhanced customer service and competing more effectively in today's economy. DataMirror's comprehensive LiveIntegration software solutions encompass every kind of integration technology. DataMirror software includes advanced real-time capture, transform and flow (CTF) technology that gives you the instant data access, integration and availability you demand today across all computers in your business.

BUSINESS BENEFITS

- Deliver real-time data flows to the people who need it.
- Keep information flowing in real time across the enterprise and beyond.
- Broad support for multiple computing platforms, databases and XML.
- Cost-effective out-of-the-box integration with zero programming required.
- Solution backed by extensive integration expertise, services and support.

SOFTWARE SOLUTIONS

TRANSFORMATION SERVER
Real-time multi-platform data integration

iDELIVER
Web data delivery

CONSTELLAR HUB
Enterprise application integration

DB/XML TRANSFORM
Integration between XML, EDI, database and text formats

LIVERESILIENCY

LiveResiliency helps you deliver the 24/7 service your customers have come to expect. LiveResiliency provides the ability to continuously mirror critical data and applications and automatically switch users from primary to recovery systems in the event of planned or unplanned outages. LiveResiliency enables production systems and customer-facing applications like CRM and e-Business to be thoroughly backed up and resilient 24/7. The goal is to create and maintain a real-time, zero-latency enterprise that is virtually impervious to downtime.

BUSINESS BENEFITS

- 24/7 availability of key databases and applications.
- Avoid the costs of planned or unplanned downtime.
- Keep your business running around the clock and around the globe.
- Enhance service levels and promote customer retention and loyalty.
- Highly efficient distributed data processing and workload balancing.

SOFTWARE SOLUTIONS

HIGH AVAILABILITY SUITE
24/7 iSeries availability and resiliency

iCLUSTER
iSeries cluster management and mirroring

iCLUSTER FOR EMC SYMMETRIX
Application availability for EMC iSeries environments

iREFLECT
High availability and disaster avoidance for Oracle

LIVEAUDIT

LiveAudit is an out-of-the-box solution that allows you to protect and monitor the security of your data and information systems. As business processes are automated, electronic records are frequently the only evidence that a transaction has taken place. LiveAudit helps companies effectively manage and monitor their electronic records. It also allows companies across all industries to comply with E-Records regulatory requirements without incurring the costs of new hardware, software or custom coding. LiveAudit provides your organization with a powerful tool to combat fraud, improve customer service and ensure corporate accountability.

BUSINESS BENEFITS

- Monitor, track and report on critical information stored in databases.
- Capture data that is added, changed or deleted to preserve all historical information.
- Secure, on-demand delivery of audit trails over the Internet or corporate networks.
- Rapid integration into existing software systems with zero programming required.
- Cost-effective compliance with E-Records regulatory requirements.

SOFTWARE SOLUTIONS

LIVEAUDIT
Data monitoring and security

LIVECAPTURE

LiveCapture provides mobile workers with access to SAP systems anytime, anywhere. It captures information via mobile devices and streams the data directly into SAP where sales and service teams can access the most current data to better serve customers. LiveCapture allows you to connect virtually any device including PCs, PDAs, handheld devices and rugged portable computers directly to SAP. The solution's open architecture and device independence empowers companies with new operational efficiencies and increased responsiveness to customers. LiveCapture business applications include highly efficient warehouse and shop floor operations, time and attendance, asset management, transportation management, service/sales force automation and customer relationship management.

BUSINESS BENEFITS

- Enhance service levels through flexible access to SAP systems.
- Make better business decisions faster with accurate and timely information.
- Increase productivity by removing bottlenecks that obstruct information flow.
- Make SAP work for you by providing a simplified custom interface with SAP.
- Save time and money by increasing the accuracy and throughput of corporate data.

SOFTWARE SOLUTIONS

PERVASIVE GATEWAY
Enterprise wide mobile computing for SAP

SYNAPSE MOBILITY
Turnkey mobile connectivity to SAP

SYNAPSE AGILITY
Job scheduling and report distribution for SAP

FISCAL 2002 FINANCIALS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Forward-looking statements in this management discussion and analysis, including statements regarding the Company's business which are not historical facts, are made pursuant to the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements of estimates, expectations, objectives and plans (financial and otherwise). The words "anticipate", "believe", "estimate", "expect" and similar expressions are intended to identify forward-looking statements. Numerous factors affect DataMirror's operating results and could cause DataMirror's actual results to differ materially from the results indicated by this document or by any forward-looking statements made by, or on behalf of, DataMirror, and there can be no assurance that future results will meet expectations, estimates or projections. These factors include, but are not limited to, the following: variability of quarterly operating results; dependence upon the continued growth and success of DataMirror's software products; competition; the ability to develop, market, support and acquire new products in an environment of rapidly changing technology; dependence upon continued growth in the database and enterprise data integration markets; dependence upon relationships with complementary vendors and distribution channels; the ability to recruit and retain key personnel; risks of international operations, currency exchange rate fluctuations and global economic conditions; possible software errors or defects; possible infringement claims by third parties; and other factors discussed in the Company's Annual Information Form and other periodic filings with the United States Securities and Exchange Commission and other regulatory authorities.

The following discussion should be read in conjunction with DataMirror Corporation's audited Consolidated Financial Statements for the years ended January 31, 2002 ("Fiscal 2002") and January 31, 2001 ("Fiscal 2001") presented in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which are in all material respects in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), except as disclosed in note 19 of the audited Consolidated Financial Statements. All amounts are stated in Canadian dollars unless otherwise noted.

OVERVIEW

DataMirror Corporation (together with its subsidiaries referred to as "DataMirror" or the "Company") designs, develops and markets software solutions that enable over 1,500 companies in 61 countries to integrate, protect, capture and audit their data.

The Company's comprehensive LiveBusiness solution family unlocks *the experience of now* by providing the instant data access, integration and resiliency companies demand today across all the computers in their business. Companies across all sectors, from manufacturing, retail, financial services and health care to government and military have invested in DataMirror solutions to help them work faster and smarter. The Company's LiveBusiness solutions enable customers to capture and integrate their data in real-time, make that data available and resilient 24 hours a day and keep the data secure by allowing them to identify and audit the changes to their databases.

SOURCES OF REVENUE AND REVENUE RECOGNITION POLICIES

The Company derives its revenue from three main sources: sales of software licences, software maintenance and support agreements, and consulting and implementation services.

The sales of software licences have historically been on a direct basis to the Company's customers in North America, Asia Pacific and most of Europe, while also employing indirect sales channels, such as distributors and remarketers in these territories. In Australia, South and Central America and certain European countries, the Company sells mainly on an indirect basis through distributors or remarketers who may also provide customer support and service to end users. During fiscal 2002, sales through these indirect sales channels accounted for 26% of revenue, down slightly from 33% in fiscal 2001. Revenue from both direct and indirect software licence sales is recognized when persuasive evidence of an arrangement exists, the related products are shipped, there are no significant uncertainties surrounding product acceptance, the fees are fixed and determinable and collection of the receivable is reasonably assured.

The Company sells single and multiple year software maintenance and support agreements with the related software licences. These agreements are generally renewed on an annual basis after expiry of their initial term. Revenue from software maintenance and support agreements is recognized on a straight-line basis over the term of the related agreements.

Revenue from consulting and implementation services is derived primarily on a time-and-materials basis under a services agreement with the customer, which in some cases may be prebilled with the related software licences. Revenue from consulting and implementation services is recognized as the services are performed.

FISCAL YEAR ENDED JANUARY 31, 2002
COMPARED TO FISCAL YEAR ENDED JANUARY 31, 2001

RESULTS OF OPERATIONS

The following table sets forth the Company's consolidated statements of income (loss) for the years indicated:

For the Years Ended January 31, (In thousands of CDN $)	2002	2001
REVENUE:		
Licence	$ 28,592	$ 35,040
Maintenance	20,562	14,065
Services	6,585	7,806
	55,739	56,911
COST OF REVENUE:		
Licence	257	514
Maintenance and services	12,827	10,637
	13,084	11,151
GROSS MARGIN	42,655	45,760
OPERATING EXPENSES:		
Selling and marketing	21,542	23,815
Research and development	10,895	7,742
General and administration	9,088	9,668
Amortization of intangibles	3,244	1,570
	44,769	42,795
INCOME (LOSS) FROM OPERATIONS	(2,114)	2,965
INVESTMENT INCOME, NET	859	1,333
GAIN (LOSS) FROM INVESTMENT IN POINTBASE, INC.		
Dilution gain	—	6,186
Equity loss	(4,112)	(4,709)
INCOME (LOSS) BEFORE INCOME TAXES	(5,367)	5,775
PROVISION FOR INCOME TAXES	297	1,067
NET INCOME (LOSS)	$ (5,664)	$ 4,708

REVENUE

The Company's revenue is derived primarily from sales of licences for its software products. Licence revenue has historically been heavily dependent on sales of Transformation Server and High Availability Suite software for use in connection with IBM iSeries (AS/400) platforms, and this continued in fiscal 2002, accounting for 66.9% of licence revenue as compared to 71.8% in fiscal 2001. It is expected that the Company's future success will continue to depend on its relationship with IBM and the success of the AS/400 platform.

Licence sales accounted for 51.3% of total revenue in fiscal 2002 as compared to 61.6% in fiscal 2001. The Company expects that software licence revenues will continue to account for a substantial portion of its revenues for the foreseeable future. During fiscal 2002, 36.9% of the Company's revenue was derived from customer software maintenance and support contracts, compared to 24.7% of revenue in fiscal 2001. Revenue from services, which includes consulting, training and other services, accounted for 11.8% of revenue during fiscal 2002, compared to 13.7% in fiscal 2001.

Effective September 1, 2000 the Company acquired certain assets and liabilities of Constellar Corporation and its UK subsidiary Constellar Limited ("Constellar"). The financial impact from the operations of Constellar are included in these results from the date of acquisition.

Licence. In fiscal 2002, licence revenue was $28,592,000 compared to $35,040,000 in fiscal 2001, a decrease of 18.4%. The decrease in licence revenue was attributable to lower rates of new customer adoption in all regions as a result of the weakening global economic conditions.

Maintenance. Maintenance revenue in fiscal 2002 was $20,562,000 compared to $14,065,000 in fiscal 2001, an increase of 46.2%. This increase was a result of maintenance revenue generated by additional licence sales since the end of fiscal 2001, the renewal of maintenance and support contracts for licence sales completed in prior periods and having a full year's revenue from maintenance and support contracts assumed as part of the Constellar acquisition completed in September 2000.

Services. Service revenue in fiscal 2002 was $6,585,000 compared to $7,806,000 in fiscal 2001, a decrease of 15.6%. This decrease was due to lower rates of new customer adoption, which caused a reduction in demand for implementation services.

DataMirror derives most of its sales revenue from international customers, with sales outside Canada usually denominated in U.S. dollars or European currencies including pounds sterling and Euros. For fiscal 2002, sales denominated in U.S. dollars and European currencies represented 55.9% and 38.9% respectively of the Company's revenues, while a significant portion of the Company's operating expenses are incurred in Canadian dollars. Accordingly, changes in exchange rates between the Canadian dollar and these foreign currencies can positively or negatively affect the Company's operating results. The Company has a policy of hedging a portion of its foreign currency denominated accounts receivable. However, management recognizes that this policy can provide only a short-term protection against a limited portion of the Company's currency exposure.

The Company's geographical revenue distribution based on the customers' country of residence has been as follows:

For the Years Ended January 31,	2002	2001
Canada	5.2%	3.4%
United States	50.4	50.0
United Kingdom	24.0	26.8
Germany	9.8	6.9
Other	10.6	12.9
	100.0%	100.0%

Transaction values for sales of the Company's products have been as large as $1,400,000, although a typical sale ranges from $50,000 to $70,000. No single customer accounted for more than 1.2% of revenue in fiscal 2002 (2.5% of revenue for fiscal 2001), and no single industry accounted for more than 20.5% of licence revenue in fiscal 2002 (21.5% of licence revenue for fiscal 2001).

COST OF REVENUE

Licence. Cost of licence revenue consists primarily of duplication, media, packaging and shipping expenses. For fiscal 2002, costs of licence revenue were $257,000 (0.9% of licence revenue) down significantly from $514,000 (1.5% of licence revenue) for fiscal 2001, due mainly to a decrease in third party sublicencing costs.

Maintenance and Services. Costs of maintenance and service revenue consist primarily of the salary and related costs of providing those services. For fiscal 2002, costs of maintenance and service revenue were $12,827,000 (47.3% of maintenance and service revenue) compared to $10,637,000 (48.6% of maintenance and service revenue) for fiscal 2001. The gross margin on maintenance and service revenue improved slightly, as the Company recognized economies of scale in the cost of providing support to its growing customer base.

OPERATING EXPENSES

Selling and Marketing. Selling and marketing expenses include expenses for sales commissions, salaries, advertising, trade shows, promotional materials and other selling and marketing related expenses. For fiscal 2002, these expenses totalled $21,542,000 (38.6% of revenue) as compared to $23,815,000 (41.8% of revenue) for fiscal 2001, a decrease of 9.5%. The decrease in selling and marketing expenses is attributable primarily to a reduction in expenses related to the former Constellar operations resulting from the integration of these operations into the Company's existing infrastructure over the period since the acquisition, as well as tighter cost controls implemented during the year. Management expects selling and marketing expenses to continue to increase as the Company expands its sales and marketing activities.

Research and Development. Research and development expenses include only salaries and other direct costs associated with the development of new products and are net of related investment tax credits. Research and development expenses (before investment tax credits) were $10,895,000 (19.5% of revenue) for fiscal 2002 compared to $8,167,000 (14.4% of revenue) for the prior fiscal year. The increase in research and development expenses is attributable to an increase in the number of research and development employees. This increase was due mainly to having the research and development personnel associated with the Company's acquisition of assets from Constellar employed for the entire year, and increased personnel associated with the other technology acquisitions completed during the year (see Acquisitions and Investments). Because of the need to enhance existing products and develop new products, the Company has invested, and continues to invest, substantial resources in its product development efforts.

General and Administration. General and administration expenses consist primarily of administrative salaries, rent, recruiting costs and professional fees. For fiscal 2002, general and administration expenses were $9,088,000 (16.3% of revenue) compared to $9,668,000 (17.0% of revenue) for fiscal 2001, a decrease of 6.0%. The decrease in general and administration expenses is attributable to a reduction in expenses related to the former Constellar operations resulting from the integration of these operations into the Company's existing infrastructure over the period since the acquisition, as well as tighter cost controls implemented during the year.

Amortization of Intangibles. Amortization of intangibles consists of the amortization of goodwill and technology. For fiscal 2002, amortization of intangibles was $3,244,000 compared to $1,570,000 for the previous fiscal year. The increase of $1,674,000 in fiscal 2002 is related to the amortization of the technology acquired as part of the Constellar acquisition and the other technology acquisitions completed during the year (see Acquisitions and Investments).

INVESTMENT INCOME, NET

Investment income, net includes interest on short-term investments and other investment income net of interest expense on long-term liabilities and lease obligations. In fiscal 2002, net investment income was $859,000 compared to $1,333,000 in fiscal 2001. This decrease of $474,000 over the prior year was the result of having lower average cash balances on hand during the year as well as a decrease in interest rates earned on funds invested during the year, as well as increased interest expense on long-term debt.

The Company invests its cash in a variety of short-term Canadian dollar denominated financial instruments, including government bonds, commercial paper and bankers acceptances. The portfolio is diversified and consists primarily of investment grade securities to minimize credit risk. Cash balances in foreign operations are generally invested in term deposits in the local operating banks. The investment in short-term financial instruments carries a degree of interest rate risk, and consequently our future investment income may fall short of expectations due to changes in short-term interest rates.

GAIN (LOSS) FROM INVESTMENT IN POINTBASE

The dilution gain from PointBase represents the increase in the value of the Company's pro-rata share in the assets of PointBase resulting from PointBase raising funds from other investors. In fiscal 2002, the Company did not record a dilution gain from its equity investment in PointBase, compared to a dilution gain of $6,186,000 in fiscal 2001. There was no gain recorded as PointBase did not raise any additional funds from other investors during the fiscal year.

The equity loss from PointBase represents the Company's pro-rata share of the operating losses of PointBase. During fiscal 2002 the Company recorded an equity loss from its investment in PointBase of $4,112,000 compared to $4,709,000 in fiscal 2001. This decrease was the result of a decrease in operating losses by PointBase during the fiscal year, as well as having the reduction in the Company's ownership percentage that occurred in June 2000 affect the entire year's equity loss.

INCOME TAX EXPENSE

During fiscal 2002, the Company recorded an income tax provision of $297,000 as compared to a provision of $1,067,000 in fiscal 2001.

The combined basic Canadian federal and provincial tax rate used in determining the income tax provision for fiscal 2002 was 41.7% (2001 – 43.8%). The decrease in the combined rate is due to the announced reduction in the federal and provincial tax rates coming into effect during the year. The announced federal and provincial tax rates cuts for the coming year will further reduce the combined rate to approximately 38.6%.

The income tax provision is higher than expected due to a combination of factors including: the equity loss from PointBase being non-deductible for tax purposes, other non-deductible expenses, the inability to benefit from certain foreign tax losses incurred during the year, the effect of foreign tax rates, the effect of the rate changes on future taxes and the manufacturing and processing tax deduction.

Certain of the Company's foreign subsidiaries have loss carry-forwards for income tax purposes of approximately $4,817,000 that are not recognized in these financial statements. These losses are available to claim against future taxable income in the applicable tax jurisdictions.

OPERATING SEGMENTS

The Company operates in two reportable segments, North America and Europe. In fiscal 2002, the North American segment (which includes the Company's Asia Pacific operations, which are currently not significant) had an operating loss of $2,455,000 compared to an operating loss of $130,000 in fiscal 2001. This decrease in profitability was due to several factors including the continued losses generated from the Asia Pacific operations, the effect of a full year of amortization of the Constellar technology and the economic downturn experienced in North America during the year. The European segment had operating income of $341,000 in fiscal 2002 compared to operating income of $3,095,000 in fiscal 2001. The decrease in operating profitability is due mainly to decreased licence sales and services revenue from the European Constellar operation and a general economic downturn in Europe experienced during the second half of the fiscal year.

ACQUISITIONS AND INVESTMENTS

On March 18, 2002, the Company announced its intention to make a take-over bid for all of the shares of Idion Technology Holdings Limited ("Idion"), a South African company listed on the Johannesburg Stock Exchange ("JSE") under the symbol IDI, in a cash bid valued at $9.8 million. On April 18, 2002, the bid was increased to $18.9 million. The take-over bid has not received the support of Idion management and is subject to shareholder approval and South African regulatory approval. The Company has acquired 16.6% of the outstanding common shares of Idion at an average cost of ZAR 44c per share, for a total cost of ZAR 8,231,000 (Cdn. $1,147,000), making the additional investment required to complete the acquisition approximately $15.8 million. Should the Company not be successful in completing the transaction, the sale of these shares could result in a gain or loss depending on the circumstances in which they are sold and subject to foreign exchange and other risks associated with investments in JSE listed companies. Idion's main operating subsidiary, Vision Solutions Inc., is a direct competitor of the Company in the IBM iSeries resiliency market. If the Company is ultimately successful in completing the transaction, there are factors which may impact the acquisition.

These factors include, but are not limited to, the following: risks involved in the completion and integration of the acquisition, expected cost savings from the acquisition may not be fully realized or realized within the expected timeframe, revenue of the combined company may be lower than expected, the possibility of technical, logistical or planning issues in connection with deployments, costs or difficulties related to obtaining regulatory approvals for completing the acquisition, costs or difficulties related to integration of the companies following the acquisition may be greater than expected and legislative or regulatory changes may adversely affect the businesses in which the companies are engaged.

On June 8, 2001, the Company acquired the technology and certain related assets of BDI Systems Inc., a developer of XML-based data transformation software products, in a cash and stock transaction. Total consideration for the transaction was cash of $424,000 and 50,000 shares of common stock with a value of $307,000. The assets acquired have been accounted for as acquired technology of $424,000 and deferred compensation of $307,000. The acquisition of technology will be amortized over a period of three years. The deferred compensation will be amortized over two years.

On May 18, 2001, the Company acquired the technology and certain related assets of saipx Inc., a developer of pervasive mobile computing and turnkey solutions for SAP, in a cash transaction. The Company acquired current assets valued at $9,000, capital assets valued at $65,000 and technology valued at $219,000 for cash consideration of $293,000. The technology acquired will be amortized over a term of three years.

Effective September 1, 2000, the Company acquired certain assets and liabilities of Constellar, a company engaged in the business of developing and marketing enterprise application integration products with offices in Redwood Shores, California and London, England. The acquisition has been accounted for under the purchase method, and the results of the continuing operations of the Constellar business acquired by DataMirror are included from the date of acquisition. A total of U.S. $5 million in payments relating to the Constellar acquisition were deferred over 3 years, and certain of these payments are contingent on revenues realized by DataMirror from the acquired business. In November 2001, a payment of $724,000 was made in payment of $856,000 of contingent consideration for the year ended August 31, 2001 less a holdback of $132,000 related to assets which were not realized. See note 17 to the Consolidated Financial Statements.

The Company has participated in several rounds of financing of PointBase, a California-based software developer and marketer. PointBase has developed an embedded, scaleable relational database written completely in Java. The PointBase database is deployable on multiple platforms, from small footprint embedded devices for mobile clients and wireless devices, to Java application servers. Under a co-development agreement with PointBase, the Company will support the integration of PointBase data to and from other databases.

In June and August 2000, PointBase engaged in another round of financing in which the Company invested an additional $5,893,000, representing 16% of the funds raised by PointBase in this financing. As a result of this transaction, the Company recognized a dilution gain of $6,186,000, which represents the increase in the amount of the Company's pro rata share of the net assets of PointBase. DataMirror's total cash investment in PointBase, including this round of financing, amounts to $10,603,000. The financing also decreased the Company's approximate ownership percentage of PointBase to 25%.

The Company expects to continue to explore and pursue acquisitions as a strategy to build its distribution channels, enhance its product offerings, increase its market share in its existing markets, and achieve revenue growth. The consideration and completion of possible acquisitions may divert significant management time and other resources, including financial resources, of the Company. It is not certain that future acquisitions will achieve their business objectives.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth certain unaudited information for each of the eight most recent quarters ended January 31, 2002. The information has been derived from the Company's unaudited Consolidated Financial Statements that, in management's opinion, have been prepared on a basis consistent with the audited Consolidated Financial Statements contained elsewhere in this Annual Report and include all adjustments necessary for a fair presentation of the information presented. Past performance is not a guarantee of future performance, and this information is not necessarily indicative of results for any future period.

For the Years Ended January 31, 2002
(In thousands of CDN dollars, except per share data - unaudited)

	Apr 30	July 31	Oct 31	Jan 31
Total Revenue	$ 13,361	$ 13,843	$ 14,204	$ 14,331
Net loss	$ (2,008)	$ (1,511)	$ (764)	$ (1,381)
Loss per share				
Basic	$ (0.17)	$ (0.13)	$ (0.07)	$ (0.12)
Fully diluted	$ (0.17)	$ (0.13)	$ (0.07)	$ (0.12)
Weighted average number of shares outstanding (000's)				
Basic	11,582	11,551	11,518	11,434
Fully diluted	11,582	11,551	11,518	11,434

For the Years Ended January 31, 2001
(In thousands of CDN dollars, except per share data - unaudited)

	Apr 30	July 31	Oct 31	Jan 31
Total Revenue	$ 11,349	$ 13,097	$ 16,211	$16,254
Net loss	$ (408)	$ 4,947	$ 904	$ (735)
Loss per share				
Basic	$ (0.04)	$ 0.43	$ 0.08	$ (0.06)
Fully diluted	$ (0.04)	$ 0.41	$ 0.07	$ (0.06)
Weighted average number of shares outstanding (000's)				
Basic	10,603	11,576	11,632	11,624
Fully diluted	10,603	12,079	12,228	11,624

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has financed its cash requirements from the sale of equity securities, funds provided by shareholders, bank lines of credit, long-term debt and capital lease financing. In December 1996, the Company completed an initial public offering of 2,000,000 common shares for net proceeds of $9,377,000, and in September 1997, raised net proceeds of $15,721,000 through the issue of 1,600,000 special warrants (subsequently converted into 1,600,000 common shares). In April 2000, the Company raised net proceeds of $34,151,000 through the issuance of 1,305,000 common shares.

As at January 31, 2002 the Company had cash, cash equivalents and short-term investments of $36,495,000, compared to $28,205,000 at the end of fiscal 2001. The increase in cash, cash equivalents and short-term investments was primarily due to increased cash flow from operations. For the year ended January 31, 2002, cash flow from operations was $15,313,000, an increase of $11,852,000 from fiscal 2001 due mainly to a significant increase in the rate of collections of accounts receivable and the corresponding decrease in days sales outstanding. The Company's investing activities consisted primarily of purchases of capital assets, the purchase of shares of Idion and the acquisition of the Constellar, BDI and saipx technologies and other assets. During fiscal 2002, capital expenditures of $1,460,000 ($1,134,000 in fiscal 2001) were financed internally and a further $165,000 ($185,000 in fiscal 2001) were financed under capital lease facilities. Capital assets acquired were primarily computer hardware and software utilized in research and development activities. The Company expects that its capital expenditures will increase in support of higher levels of research and development activities and as its sales and administration employee base grows. Financing activities during the year included repayments of long-term liabilities, capital lease payments and share capital transactions. During the fiscal year the Company used $2,249,000 ($2,070,000 in fiscal 2001) in cash to repurchase its common shares under a normal course issuer bid and raised an additional $747,000 ($1,190,000 in fiscal 2001) through the issuance of common shares pursuant to the Company's stock option plans.

The Company has available short-term bank credit facilities amounting to approximately $3,329,000. At January 31, 2002, there was no outstanding indebtedness under these credit facilities. Management believes that its current cash, cash equivalents and short-term investments together with continued positive cash flow from operations will be adequate to fund the Company's short-term financial requirements with the exception of acquisition related cash requirements. The Company's short-term financial requirements may increase substantially if the Company is successful in its take-over bid for Idion or in the event the Company makes other significant acquisitions. Short-term financial requirements related to acquisitions may include direct and indirect costs including restructuring and other expenses related to integrating and refinancing the acquired business. In the short-term, the Company does not plan on making any acquisitions that would result in short-term financial requirements exceeding the sources of cash described above. In the long-term, the Company may finance its long-term requirements from the sale of equity securities, by borrowing under bank lines of credit, by issuing long-term debt or by entering into capital lease financing arrangements.

NEW ACCOUNTING RECOMMENDATIONS

During 2001, the Canadian Institute of Chartered Accountants ("CICA") adopted three new accounting recommendations which may have an impact on the Company's future financial statements. The Company will adopt each of these recommendations as of February 1, 2002 and does not anticipate any material adverse effect to result from such adoption.

The new recommendations with respect to stock based compensation could result in compensation expense being recorded if a stock option has an intrinsic value at the time of grant. The Company's policy is to award options at fair market value, so there should be no material impact from the adoption of these recommendations.

The recommended changes in accounting for foreign exchange will be such that deferral of gains and losses related to long-term monetary assets will no longer be permitted. There should be no material impact from the adoption of these recommendations.

The Company will no longer amortize goodwill; the goodwill on the Company's balance sheet will be subject to annual impairment testing based on fair value. Any impairment in value will be recorded as an expense in the Company's financial statements, except that any impairment recorded as a result of implementing this standard would be charged to opening retained earnings. The expense for amortization of goodwill in fiscal 2002 was $1,522,000 as compared to $1,279,000 in fiscal 2001. The Company has not yet determined the impact, if any, of the new goodwill impairment requirements.

In November 2001, the Accounting Standards Board ("AcSB") approved an accounting guideline establishing conditions which must be satisfied in order to apply hedge accounting. These guidelines will not affect the Company until the fiscal year starting February 1, 2003. The Company has not yet determined the impact, if any, of these new guidelines.

ACCOUNTING POLICIES INVOLVING SIGNIFICANT ESTIMATES

The preparation of the Company's financial statements is based on the selection and application of significant accounting policies, some of which require management to make significant estimates and assumptions. The Company believes that the following are some of the critical judgement areas in the application of its accounting policies that currently affect the Company's financial condition and results of operations.

The Company has intangible assets related to goodwill and acquired technology. The determination of the related estimated useful lives and whether or not these assets are impaired involves significant judgements. In assessing the recoverability of these intangible assets, the Company must make assumptions regarding estimated future cash flows, market conditions and other factors to determine the fair value of the asset. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets not previously recorded. In fiscal 2002, the Company did not record an impairment charge related to intangible assets.

The Company has future tax assets, which are subject to periodic recoverability assessments. Realization of the Company's future tax assets is principally dependant upon its achievement of projected future taxable income. The Company's judgements regarding future profitability may change due to future market and other factors. These changes, if any, may require possible material adjustments to these future tax asset balances by recording a valuation allowance to reduce the future tax asset to the amount that is more likely to be realized. While the Company has considered future taxable income and ongoing tax planning strategies in assessing the need for valuation allowances, in the event the Company were to determine that it would be able to realize future tax assets in excess of the recorded amount, an adjustment to the future tax assets would increase income in the period such a determination were made. Likewise, in the event the Company were to determine that it would not be able to realize all or part of its net future tax assets, an adjustment to the future tax assets would be charged to income in the period such a determination were made.

OUTLOOK

The Company will continue to pursue its strategy of developing and marketing software solutions that allow companies to integrate, protect, capture and audit their data. More enterprises are expected to recognize the importance of managing data for business intelligence, enterprise application integration and e-business applications. To establish and maintain useful databases for these purposes, data must be captured, transformed and flowed from the source databases that generate operational data to separate databases such as data warehouses or web servers in real-time. Competitive pressures are forcing more companies to be available to their customers 24 hours a day. Having key operational systems unavailable due to planned (system maintenance, upgrade or backup) or unexpected (hardware or communications failure) system outages is no longer acceptable.

The U.S. Food and Drug Administration ("FDA") is mandating that all FDA-regulated firms must provide electronic audit trails, also known as E-Records, for FDA examination. It is expected that federal regulators in other industries will follow suit and mandate similar audit requirements. The Company's LiveBusiness solutions are designed to help companies address all of these needs.

Some of the key growth issues the Company faces include building and managing its direct and indirect distribution channels, increasing its marketing efforts to enhance general market awareness of its products, continuing to improve the efficiency and functionality of its existing products, introducing new products, hiring quality people and maintaining adequate management reporting and information systems. The Company continues to invest in these areas in order to achieve its growth objectives.

Fiscal 2002 saw the Company generate significant positive cash flows during a period when many of its peers were unprofitable. The Company's balance sheet is strong and we remain confident that our LiveIntegration, LiveResiliency, LiveCapture and LiveAudit solutions will continue to resonate in the marketplace. We feel our near and long-term prospects for success remain strong, but are aware of the uncertain economic and business conditions that could cause fluctuations in operating results. Nevertheless, the Company remains committed to its objective of generating significant value for its shareholders, customers, business partners and employees.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying Consolidated Financial Statements are the responsibility of management and have been approved by the Board of Directors. Management believes that the Consolidated Financial Statements fairly reflect the form and substance of transactions and that the Consolidated Financial Statements reasonably present the Company's financial position and results of operations in conformity with Canadian generally accepted accounting principles. Management has included in these financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances. Financial and operating data elsewhere in the annual report are consistent with the information contained in these financial statements.

In fulfilling its responsibilities, management has developed and maintains a system of internal controls. These controls ensure that assets are safeguarded from loss or unauthorized use and that financial records are reliable for the purpose of preparing Consolidated Financial Statements.

Ernst & Young LLP, the independent auditors appointed by the shareholders of the Company, have audited the Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards and they provide an objective, independent review of the fairness of reported operating results and financial position. The Board of Directors of the Company has an Audit Committee which meets with financial management and the independent auditors to review accounting, auditing, internal accounting controls and financial reporting matters.

NIGEL STOKES
Chairman, President and
Chief Executive Officer

PETER CAULEY
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of
DataMirror Corporation

We have audited the consolidated balance sheets of DataMirror Corporation as at January 31, 2002 and 2001 and the consolidated statements of income (loss), shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

As described in note 1, the Company changed its accounting policy for the calculation of earnings per share effective February 1, 2001.

Toronto, Canada,
March 8, 2002
(except as to note 20,
which is as of March 18, 2002).

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

As at January 31	2002	2001
ASSETS		
CURRENT		
Cash and cash equivalents (note 2)	$ 9,073	$ 28,205
Short-term investments (note 3)	27,422	—
Accounts receivable	12,773	24,298
Prepaid expenses	1,747	1,731
Future tax assets (note 13)	1,851	1,696
TOTAL CURRENT ASSETS	52,866	55,930
Capital assets, net (note 4)	3,702	3,953
Investment tax credits recoverable	2,440	2,782
Investments (note 5)	7,495	10,787
Intangibles (note 6)	13,100	14,993
	$ 79,603	$ 88,445
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	$ 3,855	$ 5,710
Deferred revenue	14,583	12,311
Current portion of long-term debt (note 8)	1,464	1,426
Current portion of capital lease obligations (note 9)	138	238
Income taxes payable	—	639
TOTAL CURRENT LIABILITIES	20,040	20,324
Future tax liabilities (note 13)	1,106	1,505
Long-term debt (note 8)	—	1,292
Capital lease obligations (note 9)	98	106
TOTAL LIABILITIES	21,244	23,227
Commitments and contingencies (notes 14, 15 and 17)		
SHAREHOLDERS' EQUITY		
Share capital (note 10)	64,740	65,583
Retained earnings (deficit)	(5,883)	133
Cumulative translation adjustment	(498)	(498)
TOTAL SHAREHOLDERS' EQUITY	58,359	65,218
	$ 79,603	$ 88,445

See accompanying notes

On behalf of the Board:

Nigel Stokes
Director

P. Kirk Dixon
Director

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(in thousands of Canadian dollars, except per share data)

Years ended January 31		2002		2001
REVENUE				
Licence	$	28,592	$	35,040
Maintenance		20,562		14,065
Services		6,585		7,806
		55,739		56,911
COST OF REVENUE				
Licence		257		514
Maintenance and services		12,827		10,637
		13,084		11,151
GROSS MARGIN		42,655		45,760
OPERATING EXPENSES				
Selling and marketing		21,542		23,815
Research and development (note 12)		10,895		7,742
General and administration		9,088		9,668
Amortization of intangibles		3,244		1,570
		44,769		42,795
Operating income (loss)		(2,114)		2,965
Investment income, net (notes 8 and 9)		859		1,333
Gain (loss) from investment in PointBase, Inc. (note 5)				
Dilution gain		—		6,186
Equity loss		(4,112)		(4,709)
Income (loss) before income taxes		(5,367)		5,775
Provision for (recovery of) income taxes (note 13)				
Current		428		877
Future		(131)		190
		297		1,067
NET INCOME (LOSS) FOR THE YEAR	$	(5,664)	$	4,708
EARNINGS (LOSS) PER SHARE				
Basic	$	(0.49)	$	$0.41
Diluted	$	(0.49)	$	$0.40
WEIGHTED AVERAGE NUMBER OF SHARES (000'S)				
Basic		11,500		11,362
Diluted		11,500		11,856

See accompanying notes

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

Years ended January 31

	Common Shares		Retained earnings (deficit)	Cumulative translation adjustment	Total shareholders' equity
	Shares (000's)	Amount			
BALANCE, JANUARY 31, 2000	10,207	$ 30,773	$ (3,036)	$ (498)	$ 27,239
Net income for the year	—	—	4,708	—	4,708
Issuance of common shares (note 10(b))	1,305	34,151	—	—	34,151
Exercise of stock options (note 11)	209	1,190	—	—	1,190
Repurchase of common shares (note 10(c))	(97)	(531)	(1,539)	—	(2,070)
BALANCE, JANUARY 31, 2001	11,624	65,583	133	(498)	65,218
Net loss for the year	—	—	(5,664)	—	(5,664)
Issuance of share capital (note 17)	50	307	—	—	307
Exercise of stock options (note 11)	134	747	—	—	747
Repurchase of common shares (note 10(c))	(336)	(1,897)	(352)	—	(2,249)
BALANCE, JANUARY 31, 2002	11,472	$ 64,740	$ (5,883)	$ (498)	$ 58,359

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years ended January 31	2002	2001
OPERATING ACTIVITIES		
Net income (loss) for the year	$ (5,664)	$ 4,708
Add (deduct) items not affecting cash		
Amortization of capital assets	1,876	1,729
Amortization of intangibles	3,244	1,570
Future income taxes	(131)	190
Dilution gain from investment in PointBase, Inc.	—	(6,186)
Equity loss from investment in PointBase, Inc.	4,112	4,709
Non-cash interest expense	215	48
Non-cash foreign exchange loss	97	—
Non-cash operating expense	90	—
	3,839	6,768
Net change in non-cash working capital balances related to operations	11,474	(3,307)
CASH PROVIDED BY OPERATING ACTIVITIES	15,313	3,461
INVESTING ACTIVITIES		
Capital asset additions	(1,460)	(1,134)
Purchase of short-term investments	(27,422)	—
Investment in Idion Technology Holdings Limited (note 20)	(820)	—
Acquisition of intangibles	(676)	—
Acquisition of business, net of cash (note 17)	(724)	(8,940)
Purchase of investment	—	(5,893)
CASH USED IN INVESTING ACTIVITIES	(31,102)	(15,967)
FINANCING ACTIVITIES		
Repayment of long-term liabilities	(1,566)	(890)
Capital lease payments	(275)	(754)
Issuance of share capital	747	34,206
Repurchase of share capital	(2,249)	(2,070)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(3,343)	30,492
INCREASE (DECREASE) IN CASH AND EQUIVALENTS DURING THE YEAR	(19,132)	17,986
Cash and cash equivalents, beginning of year	28,205	10,219
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,073	$ 28,205
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 53	$ 97
Taxes paid	$ 1,080	$ —

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABULAR AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE DATA)

JANUARY 31, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
The consolidated financial statements of DataMirror Corporation (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which are in all material respects in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), except as disclosed in note 19. The Company is incorporated under the laws of Ontario.

BASIS OF CONSOLIDATION
The consolidated financial statements include the accounts of the Company together with its wholly-owned subsidiary companies. All significant inter-company transactions and balances have been eliminated upon consolidation. The purchase method is used to account for acquisitions and the results of operations of subsidiaries are included from the dates of their respective acquisitions.

USE OF ESTIMATES
The preparation of these consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts may vary from the current estimates.

CASH AND CASH EQUIVALENTS
Cash and cash equivalents include highly liquid investments having maturity dates of up to three months when purchased and are valued at cost, which approximates their fair value.

SHORT-TERM INVESTMENTS
Short-term investments include highly liquid investments with maturity dates of over three months when purchased and are valued at cost, which approximates their fair value.

CAPITAL ASSETS
Capital assets are recorded at cost less accumulated amortization and related investment tax credits. Amortization is provided over the estimated useful life of the related asset. Computer equipment and software are amortized on a declining balance basis at rates varying from 30% to 50%. Furniture and equipment are amortized on a declining balance basis at 20%. Leasehold improvements are amortized on a straight-line basis over the term of the related lease.

LEASES
Leases are classified as either capital or operating. Those leases which transfer substantially all the benefits and risks of ownership of property to the Company are accounted for as capital leases. The capitalized lease obligation reflects the present value of future lease payments, discounted at the appropriate interest rate and is reduced by rental payments net of imputed interest. Assets under capital leases are amortized based on the useful life of the asset. All other leases are accounted for as operating with rental payments being expensed as incurred.

INVESTMENTS
The investment consists of the Company's investment in PointBase, Inc. ("PointBase") and is recorded using the equity method of accounting.

The investment in Idion Technology Holdings Limited is recorded at cost. A decline in the value of an investment which is considered to be other than a temporary impairment in value is charged against income in the period that such determination is made.

INTANGIBLES
Intangibles are comprised of goodwill and acquired technology assets.

Goodwill represents the excess of purchase price over the fair value of the net identifiable assets acquired and is amortized on a straight-line basis over five to ten years. Goodwill is evaluated each reporting period to determine if there were events or circumstances which would indicate a possible inability to recover the carrying amount. Such an evaluation is based on various analyses including profitability projections and undiscounted cash flows.

Acquired technology assets are recorded at cost. Amortization is provided for on a straight-line basis over three to five years. Acquired technology assets are assessed for future recoverability or impairment on an annual basis by estimating future undiscounted cash flows. When the net carrying value of an acquired technology asset exceeds the estimated net recoverable amount, the asset is written down with a charge against income in the period that such determination is made.

EARNINGS PER SHARE

Basic earnings per share are calculated on net income (loss) for the year using the weighted average number of shares outstanding. The Company has retroactively adopted the new recommendations for determining earnings per common share issued by the Canadian Institute of Chartered Accountants. The impact on the consolidated financial statements as a result of the adoption of these new recommendations was to reduce diluted earnings per share from $0.41 to $0.40 for the year ended January 31, 2001. Diluted earnings per share reflect the dilution that would occur if outstanding stock options were exercised into common shares using the treasury stock method. The computation of diluted earnings per share does not include stock options with dilutive potential that would have an anti-dilutive effect on earnings per share. For the year ended January 31, 2002, the inclusion of the Company's stock options in the computation of diluted earnings per share would have an anti-dilutive effect and are therefore excluded from the computation. Consequently, there is no difference between basic earnings per share and diluted earnings per share.

STOCK-BASED COMPENSATION PLANS

The Company has two stock-based compensation plans, which are described in note 11. No compensation expense is recognized for these plans when stock options are issued to directors, officers and employees. Any consideration paid on the exercise of stock options is credited to share capital.

RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed as incurred. Development costs are expensed as incurred unless a project meets the criteria under Canadian generally accepted accounting principles for deferral and amortization. The Company has not deferred any such development costs to date. Research and development costs are reduced by related investment tax credits.

GOVERNMENT ASSISTANCE

Government assistance, consisting of investment and other tax credits, is recorded using the cost reduction method. Such government assistance is recorded when the qualifying expenditure is made and where there is reasonable assurance that investment and other tax credits will be realized.

FOREIGN CURRENCY TRANSLATION

The Company's subsidiaries are considered to be integrated operations. Accordingly, the temporal method is used to translate the foreign operations of the subsidiary companies. The temporal method is also used to translate foreign transactions and balances. Under this method, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the consolidated balance sheet dates. Non-monetary assets and liabilities and amortization are translated at historical exchange rates. Revenue and expenses, excluding amortization, are translated at average rates prevailing during the year. Amortization is translated at weighted average historical rates. The resulting net gain or loss on translation is included in the consolidated statements of income (loss) in the period incurred.

Foreign exchange gains and losses on transactions during the year are reflected in income, except for gains and losses on foreign exchange forward contracts used to hedge specific future commitments in foreign currencies (note 15). Gains or losses on these contracts are accounted for as a component of the related hedged transaction. Unrealized foreign exchange gains or losses on foreign denominated long-term debt are deferred and amortized over the remaining term of the debt.

REVENUE RECOGNITION AND DEFERRED REVENUE

The Company's revenues are generated from the sale of software licences, software maintenance and support fees and services.

Revenue is recognized in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition" issued by the American Institute of Certified Public Accountants ("AICPA") in October 1997 and amended by SOP 98-4 issued in March 1998. Software licence revenue is recognized when persuasive evidence of an arrangement exists, the related products are shipped, there are no significant uncertainties surrounding product acceptance, the fees are fixed and determinable and collection is considered probable. Revenue from software maintenance and support agreements is recognized on a straight-line basis over the term of the related agreements. Revenue from services is comprised of consulting, training and installation fees and is recognized at the time the services are performed.

Deferred revenue is comprised of software maintenance and support fees and consulting revenue for which services have yet to be provided.

INCOME TAXES

The Company accounts for income taxes using the liability method of tax allocation. Under the liability method of tax allocation, future tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The Company provides a valuation allowance on future tax assets when it is more likely than not that such assets will not be realized.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2002	2001
Cash	$ 9,073	$ 7,275
Commercial paper	—	20,930
	$ 9,073	$ 28,205

The commercial paper for 2001 bore interest at rates of approximately 5.6% with expiry dates extending up to one month.

3. SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

	2002	2001
Commercial paper	$ 27,422	$ —

Commercial paper bears interest at a rate of approximately 3.0% and has maturity dates of up to two months from January 31, 2002.

4. CAPITAL ASSETS

Capital assets consist of the following:

	2002	2001
Computer equipment and software	$ 7,974	$ 7,026
Furniture and equipment	1,950	1,917
Leasehold improvements	1,090	1,003
	11,014	9,946
Less accumulated amortization	7,312	5,993
	$ 3,702	$ 3,953

Capital assets include assets under capital leases of approximately $498,000 (accumulated amortization of $262,000) at January 31, 2002 and $997,000 (accumulated amortization of $585,000) at January 31, 2001.

During the year, capital assets were acquired at an aggregate cost of $1,625,000 (2001 – $1,319,000) of which $165,000 (2001 – $185,000) were acquired by means of capital leases and are excluded from the consolidated statements of cash flows.

5. INVESTMENTS

The investments are as follows:

		2002		2001
PointBase				
Investment, at cost	$	10,603	$	10,603
Cumulative dilution gain		8,513		8,513
Cumulative equity loss		(12,441)		(8,329)
		6,675		10,787
Idion Technology Holdings Limited (note 20)		820		—
	$	7,495	$	10,787

In June and August 2000, PointBase engaged in an additional round of financing in which the Company invested an additional $5,893,000. However, as a result of the participation of other parties in these investment rounds, the Company's approximate ownership was reduced and the Company recognized a dilution gain of $6,186,000, which represents the increase in the Company's pro-rata share of the net assets of PointBase. The financings also decreased the Company's approximate ownership percentage of PointBase from 29% to 25%.

6. INTANGIBLES

Intangibles consist of the following:

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Goodwill	$ 5,203	$ 2,085	$ 3,118	$ 3,639
Acquired technology	14,854	5,089	9,765	11,354
Deferred compensation (note 17)	307	90	217	—
	$ 20,364	$ 7,264	$ 13,100	$ 14,993

7. BANK CREDIT FACILITIES

At January 31, 2002 and 2001, the Company had available credit facilities of $3,000,000 bearing interest at the prime rate plus 0.5% and £150,000 ($329,000) bearing interest at the prime rate in the United Kingdom plus 3.00%. Under a general security agreement and a source code escrow agreement, all of the Company's assets, including the source code for the Company's software, are pledged as collateral for these credit facilities. As at January 31, 2002, no amounts have been drawn against these facilities other than letters of credit of $140,000 (2001 – nil).

8. LONG-TERM DEBT

Long-term debt consists of the following:

		2002		2001
Loan payable, repayable in two annual payments of U.S. $1,000,000 due on September 29, 2001 and 2002	$	1,464	$	2,718
		1,464		2,718
Less current portion		1,464		1,426
	$	—	$	1,292

The loan payable arose upon the acquisition of the assets of Constellar Corporation ("Constellar") by the Company (note 17) and is unsecured and non-interest bearing. As the loan payable is non-interest bearing, it is shown at a reduced value to reflect the imputed interest at a rate of 8%, representing the Company's approximate borrowing rate at the date of acquisition. The imputed interest will be charged to interest expense on long-term debt over the term of the loan. Included in investment income is interest expense on long-term debt of $215,000 (2001 – $48,000).

9. CAPITAL LEASE OBLIGATIONS

Future minimum lease payments with imputed interest rates ranging from 7.3% to 8.4% and expiry dates to April 30, 2004 are as follows:

	2002	2001
2002	$ —	$ 255
2003	151	88
2004	80	23
2005	28	—
	259	366
Less amount representing imputed interest	23	22
	236	344
Less current portion	138	238
	$ 98	$ 106

Included in investment income is interest expense relating to capital lease obligations of $18,000 (2001 – $51,000).

10. SHARE CAPITAL

(a) Authorized

Unlimited number of common and preferred shares.

(b) Share issuance

On April 6, 2000, the Company issued 1,305,000 common shares at a purchase price per common share of $27.00 for gross proceeds of $35,235,000. The Company incurred total costs of approximately $2,219,000 relating to this share issuance, which have been offset against share capital, net of a future tax benefit of approximately $1,135,000.

(c) Shares purchased for cancellation

Under a normal course issuer bid ("Bid") effective September 21, 2000, the Company indicated its intention to purchase up to 582,355 of its outstanding common shares. This Bid expired on September 20, 2001. Under a new Bid, effective September 21, 2001, the Company indicated its further intention to additionally purchase up to 576,226 of its outstanding common shares. This Bid expires on September 20, 2002. During the year ended January 31, 2002, the Company purchased for cancellation 336,300 common shares (2001 – 96,700) for cash consideration of $2,249,000 (2001 – $2,070,000). As a result, stated capital was reduced by $1,897,000 (2001 – $531,000) and retained earnings were reduced by $352,000 (2001 – $1,539,000).

11. STOCK-BASED COMPENSATION PLANS

At January 31, 2002, the Company has two stock-based compensation plans for the purpose of providing shares to directors, officers and employees. The first plan was established on December 12, 1996. Options under this plan generally vest over four years from the date of grant and expire five years from the date of grant. The second plan was established on June 14, 2000 with similar attributes. The number of common shares reserved for issuance under the first and second plan are 1,640,000 and 500,000, respectively. Also, an option plan that was established on October 31, 1996 expired on October 1, 2000 with all options issued thereunder either exercised or cancelled.

A summary of the status of the Company's stock-based compensation plans as at January 31, 2002 and 2001 and changes during the years then ended is presented below:

	2002	
	Options #	Weighted average exercise price $
OUTSTANDING, BEGINNING OF YEAR	1,181,126	11.84
Granted	412,750	8.76
Exercised	(134,637)	5.55
Expired	(244,108)	13.57
OUTSTANDING, END OF YEAR	1,215,131	11.14
OPTIONS EXERCISABLE AT YEAR END	634,239	

	2001	
	Options #	Weighted average exercise price $
OUTSTANDING, BEGINNING OF YEAR	1,076,836	7.39
Granted	622,833	18.22
Exercised	(208,566)	5.71
Expired	(309,977)	13.34
OUTSTANDING, END OF YEAR	1,181,126	11.84
OPTIONS EXERCISABLE AT YEAR END	420,940	

STOCK-BASED COMPENSATION PLANS CONT'D

	Options outstanding			Options exercisable	
Range of exercise prices $	Outstanding at January 31, 2002 #	Weighted average remaining contractual life (in years)	Weighted average exercise price $	Currently vested and exercisable at January 31, 2002 #	Weighted average exercise price $
4.00 – 6.00	299,270	4.1	5.23	154,345	4.79
6.01 – 9.00	206,281	4.8	6.88	74,344	7.06
9.01 – 13.50	252,813	3.2	11.18	188,932	11.21
13.51 – 20.25	350,772	4.7	15.31	188,577	14.28
20.26 – 27.97	105,995	4.7	22.14	28,041	22.37
4.00 – 27.97	1,215,131		11.14	634,239	10.57

12. GOVERNMENT ASSISTANCE

The Company applies for investment tax credits under the Income Tax Act (Canada) relating to amounts expended on scientific research and development. During the year, no (2001 – $700,000) investment tax credits were applied to reduce operating expenses. The amount of investment tax credits recorded represents management's best estimate based on its interpretation of current legislation. However, the Canada Customs and Revenue Agency has not yet assessed all these claims and, therefore, the amount ultimately received could be materially different than the amount recorded.

13. INCOME TAXES

Significant components of the Company's future tax assets and liabilities are as follows:

	2002	2001
FUTURE TAX ASSETS		
CURRENT		
Deferred revenue	$ 1,834	$ 1,513
Other	17	183
	1,851	1,696
Less valuation allowance	—	—
	$ 1,851	$ 1,696

INCOME TAXES CONT'D

	2002	2001
FUTURE TAX ASSETS		
LONG-TERM		
Tax benefit of loss carryforwards and tax credits	$ 1,766	$ 1,299
Share issue costs	451	770
Scientific research and development deductions	—	196
Equity investment in PointBase, Inc.	658	—
Other	147	195
	3,022	2,460
Less valuation allowance	(2,165)	(1,040)
	857	1,420
FUTURE TAX LIABILITIES		
LONG-TERM		
Tax depreciation in excess of book depreciation	(1,135)	(1,361)
Scientific research investment tax credits	(828)	(750)
Equity investment in PointBase, Inc.	—	(66)
Other	—	(748)
	(1,963)	(2,925)
	$ (1,106)	$ (1,505)

The following table reconciles the income tax expense computed at the rates specified in Canadian tax statutes to the reported income tax expense:

	2002	2001
Income tax expense (recovery) at combined Canadian federal and provincial income tax rate of 41.7% (2001 – 43.8%)	$ (2,240)	$ 2,529
Effect of foreign tax rate differences	(95)	(591)
Benefit of foreign tax losses not previously recognized	(101)	(897)
Items not deductible for income tax purposes	244	134
Non-taxable gain (loss) from investment in PointBase, Inc.	1,556	(647)
Foreign tax losses not tax benefited	448	962
Manufacturing and processing profits deduction	198	(65)
Ontario research and development incentives	—	(99)
Effect of rate changes on future income taxes	88	—
Other	199	(259)
INCOME TAX EXPENSE	$ 297	$ 1,067

Significant components of the provision for income taxes are as follows:

	2002	2001
Current tax expense	$ 428	$ 877
Future income tax benefit relating to origination and reversal of temporary differences	(177)	190
Future income tax benefit resulting from recognition of loss carryforwards	(42)	—
Future income tax expense resulting from rate change	88	—
INCOME TAX EXPENSE	$ 297	$ 1,067

The Company has foreign non-capital loss carryforwards of approximately $4,936,000 of which $4,506,000 have no expiry date and may be applied against future years' taxable income in those tax jurisdictions for an indefinite period. The remaining $430,000 of those losses expire in 2004 and 2005. Of the total losses of $4,936,000, a valuation allowance has been recognized for all but $119,000 of the losses in one tax jurisdiction.

14. LEASE COMMITMENTS

The Company has entered into agreements to lease office facilities and equipment for which the future annual lease payments are approximately as follows:

2003	$	2,544,000
2004		2,071,000
2005		403,000
Thereafter		—

15. FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

HEDGING ACTIVITIES

During the year, the Company entered into forward currency contracts to sell U.S. dollars for Canadian dollars to hedge the future collection of its accounts receivable denominated in U.S. dollars. At January 31, 2002, U.S. $4,000,000 of forward currency contracts were outstanding at exchange rates of approximately 1.59, maturing within sixty days of the Company's year end with a fair value of $25,000. These contracts hedge a portion of the Company's U.S. dollar based accounts receivable. The Company does not enter into foreign exchange contracts for speculative purposes.

CURRENT FINANCIAL ASSETS AND LIABILITIES

Due to the short period to maturity of these financial instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of their fair values.

INVESTMENTS

As PointBase is a privately-owned company, fair value information is not readily available. However, based on recent financing transactions, management believes the market value to be in excess of the carrying value of the investment.

The fair value of the investment in Idion at January 31, 2002 is $690,000.

LONG-TERM DEBT

The fair value of the Company's long-term debt, based on current rates for liabilities with similar terms and maturities, is not materially different from its carrying value.

RISK MANAGEMENT

Short-term investments are placed exclusively with entities having ratings of at least R1-low by a recognized Canadian debt-rating agency.

Credit risk related to the Company's trade receivables is minimized due to its large customer base, geographical distribution and diversification of operations.

In addition to Canada and the United States, the Company also operates in the United Kingdom, Germany and other European countries and is therefore exposed to market risks related to foreign currency fluctuations between these currencies.

16. SEGMENTED INFORMATION

The Company operates in only one industry, that being the business of developing and marketing computer software products. The Company has two reportable segments, North America, which includes the Company's newly incorporated Asia Pacific operations, and Europe, based on the geographic location of its operations. The accounting policies followed by these segments are the same as those described in the summary of significant accounting policies. The Company accounts for intersegment sales at fair value.

The Company's reportable segments are strategic business units. They are managed separately because each reportable segment operates in different economic marketplaces and therefore, requires different investing and marketing strategies. The Company evaluates segment performance based on profit or loss from operations before investment income and income taxes.

The following table presents certain information with respect to the reportable segments described above:

		2002		2001
REVENUE				
North America				
Customers	$	34,064	$	33,672
Intersegment		5,320		5,821
		39,384		39,493
Europe				
Customers		21,675		23,239
Elimination of intersegment revenue		(5,320)		(5,821)
CONSOLIDATED REVENUE	$	55,739	$	56,911
OPERATING INCOME (LOSS)				
North America	$	(2,455)	$	(130)
Europe		341		3,095
CONSOLIDATED OPERATING INCOME (LOSS)	$	(2,114)	$	2,965
AMORTIZATION				
North America	$	4,127	$	2,510
Europe		993		789
CONSOLIDATED AMORTIZATION	$	5,120	$	3,299
CAPITAL ASSET ADDITIONS				
North America	$	996	$	1,033
Europe		629		286
CONSOLIDATED CAPITAL ASSET ADDITIONS	$	1,625	$	1,319
IDENTIFIABLE ASSETS				
North America	$	53,898	$	54,965
Europe		12,605		18,487
		66,503		73,452
Intangibles		13,100		14,993
CONSOLIDATED ASSETS	$	79,603	$	88,445

Summaries of revenue, segmented according to the customers' country of residence, and of capital and intangible assets, segmented according to the country in which the assets are located, are as follows:

		2002		2001
REVENUE				
Canada	$	2,903	$	1,937
United States		28,093		28,464
United Kingdom		13,385		15,255
Germany		5,454		3,937
Other		5,904		7,318
	$	55,739	$	56,911
CAPITAL AND INTANGIBLE ASSETS				
Canada	$	13,058	$	14,569
Germany		2,782		3,312
Other		962		1,065
	$	16,802	$	18,946

17. ACQUISITIONS

On May 18, 2001, the Company acquired the technology and certain related assets of saipx Inc., a developer of pervasive mobile computing and turnkey solutions for SAP, in a cash transaction. The Company acquired current assets valued at $9,000, capital assets valued at $65,000 and technology valued at $219,000 for cash consideration of $293,000. The technology acquired will be amortized over a term of three years.

On June 8, 2001, the Company acquired the technology and certain related assets of BDI Systems Inc., a developer of XML-based data transformation software products, in a cash and stock transaction. Total consideration for the transaction was cash of $424,000 and 50,000 shares of common stock with a value of $307,000 to be released from escrow over two years. The assets acquired have been accounted for as acquired technology of $424,000 and deferred compensation of $307,000. The technology will be amortized over a period of three years. The deferred compensation will be amortized over two years.

Effective September 1, 2000, the Company acquired certain assets and liabilities of Constellar, a company engaged in the business of developing and marketing computer software products. The acquisition has been accounted for under the purchase method of accounting. Consequently, the results of operations of Constellar are included in these consolidated financial statements from the date of acquisition.

The purchase transaction is summarized as follows:

ASSETS ACQUIRED		
Cash	$	368
Other current assets		3,956
Capital assets		570
Technology		11,526
		16,420
Current liabilities assumed		(4,442)
NET ASSETS ACQUIRED	$	11,978
CONSIDERATION		
Cash	$	9,308
Vendor take-back debt (note 8)		2,670
	$	11,978

As part of the purchase agreement, further cash payments of up to U.S. $3,000,000 are payable contingent on certain revenue targets being generated from the acquired technology during the three-year period ending August 31, 2003. In November 2001, a payment of $724,000 was made in payment of contingent consideration of $856,000 for the period ended August 31, 2001 less a holdback of $132,000 related to assets purchased which were not realized. The additional contingent payment has been added to the value of the technology acquired, bringing the total value of technology acquired to $12,382,000. Any future contingent consideration will be recognized when earned and added to the value of technology acquired at that time.

18. RELATED PARTY TRANSACTIONS

In the normal course of operations during the year, the Company entered into several different transactions with SmartSales Inc., a company with a common Chairman of the Board of Directors and significant shareholder. The transactions consisted of purchases of $100,000 (2001 – nil), rental income of $102,000 (2001 – $24,000) and sales of nil (2001 – $38,000). These transactions were made at market prices under normal trade terms and conditions. At January 31, 2002, $25,500 was receivable from SmartSales Inc. (2001 – nil).

As at January 31, 2002, the Company had loans receivable from directors of $70,000, bearing no interest (2001 – nil) and due at a term of up to three years.

19. RECONCILIATION OF CANADIAN GAAP TO U.S. GAAP

The consolidated financial statements of the Company have been prepared in accordance with Canadian GAAP which differ in certain material respects from those applicable in the United States.

The material differences as they apply to the Company's consolidated financial statements are as follows:

(a) Balance sheet adjustments

	2002	2001
INVESTMENTS		
Balance under Canadian GAAP	$ 7,495	$ 10,787
Cumulative equity loss recorded for Canadian GAAP purposes (i)	12,441	8,329
Dilution gain recognized for Canadian GAAP purposes (ii)	(8,513)	(8,513)
Cumulative equity loss recorded for U.S. GAAP purposes (i)	(14,084)	(9,993)
Increase in equity investment for U.S. GAAP purposes (ii)	10,408	10,408
Unrealized loss on investment (iii)	(130)	—
BALANCE UNDER U.S. GAAP	$ 7,617	$ 11,018
INTANGIBLES		
Balance under Canadian GAAP	$ 13,100	$ 14,993
Adjustment for recognition of tax loss carryforwards (iv)	(128)	(128)
BALANCE UNDER U.S. GAAP	$ 12,972	$ 14,865
RETAINED EARNINGS (DEFICIT)		
Balance under Canadian GAAP	$ (5,883)	$ 133
Current year's net income adjustments	21	(6,095)
Cumulative prior year's net income adjustments	(10,176)	(4,081)
Adjustment for recognition of tax loss carryforwards (iv)	(128)	(128)
BALANCE UNDER U.S. GAAP	$ (16,166)	$ (10,171)

(i) Under U.S. GAAP, specifically the provisions of Accounting Principles Board Opinion ("APB") No. 18, "Equity Accounted Investments", when an investment, previously accounted for on a cost basis, qualifies for use of the equity method, the investment, results of operations and retained earnings of the investor should be retroactively adjusted.

(ii) Under U.S. GAAP, additional equity raised by an investee is recognized as an equity transaction if the investee is a newly-formed, non-operating entity; a research and development, start-up or development stage company; an entity whose ability to continue in existence is in question; or other similar circumstances. The determination of the gain resulting from the dilution of the Company's equity interest is different under Canadian and U.S. GAAP due to the differences in the carrying value of the investment account.

(iii) Under U.S. GAAP, investments classified as available for sale are carried at market values with unrealized gains or losses reflected as a component of other comprehensive income. The investment in Idion is classified as available for sale. PointBase is not available for sale as it is a private company.

(iv) Under U.S. GAAP, the realization of the benefit associated with utilizing tax losses which existed at the time of an acquisition but which were not recognized at that time, is reflected as a reduction of goodwill relating to the acquisition in the period upon which the Company determines that such realization is more likely than not. Under Canadian GAAP, prior to the adoption of the liability method in fiscal 2001, such benefit was recorded as a reduction of the income tax provision in the period of utilization.

(b) The components of shareholders' equity under U.S. GAAP are as follows:

	2002	2001
Share capital	$ 64,740	$ 65,583
Increase in equity investment	10,408	10,408
Accumulated other comprehensive loss	(628)	(498)
Deficit	(16,166)	(10,171)
BALANCE UNDER U.S. GAAP	$ 58,354	$ 65,322

(c) Reconciliation of net income (loss) under Canadian and U.S. GAAP:

	2002	2001
Net income (loss) under Canadian GAAP	$ (5,664)	$ 4,708
Dilution gain recognized for Canadian GAAP purposes	—	(6,186)
Equity loss recorded for Canadian GAAP purposes	4,112	4,709
Equity loss recorded for U.S. GAAP purposes (i)	(4,091)	(4,619)
Net loss under U.S. GAAP	(5,643)	(1,388)
Unrealized loss on investments	(130)	—
COMPREHENSIVE LOSS UNDER U.S. GAAP	$ (5,773)	$ (1,388)
NET LOSS PER SHARE UNDER U.S. GAAP (II)	$ (0.49)	$ (0.12)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING UNDER U.S. GAAP (000's)	11,500	11,362

(i) Included in the equity loss recorded for U.S. GAAP purposes is an amount for acquired in-process research and development. Under U.S. GAAP, specifically Statement of Financial Accounting Standard ("SFAS") No. 2, "Accounting for Research and Development Costs", acquired in-process research and development having no alternative future use must be written off at the time of acquisition. The adjustment represents the value of the acquired in-process research and development capitalized under Canadian GAAP.

(ii) The Company accounts for its stock-based compensation plan for certain participants in its employee stock option plan under the provisions of APB 25, "Accounting for Stock Issued to Employees" which results in the recording of no expense in the Company's circumstances.

(d) Recent accounting developments

In July 2001, the United States Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets", which are effective for fiscal years beginning after December 15, 2001. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and that the pooling-of-interests method no longer be used. SFAS No. 142 requires that the carrying value of goodwill be evaluated annually for impairment and disallows the amortization of goodwill. The Standard also requires reclassification of identifiable intangibles of previously reported goodwill. The Company has not yet determined the effects that the adoption will have on its business, results of operation and financial condition other than expense for amortization of goodwill will reduce to nil from $1,522,000 in 2002 (2001 – $1,279,000).

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addressed financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and related literature and establishes a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale. The Company is required to adopt SFAS No. 144 no later than February 1, 2002. The Company has not yet determined the effects that the adoption will have on its business, results of operation and financial condition.

20. SUBSEQUENT EVENT

On March 18, 2002, the Company announced its intention to make a take-over bid for all of the shares of Idion Technology Holdings Limited ("Idion"), a South African company listed on the Johannesburg Stock Exchange, in a cash bid valued at $9,800,000. On April 18, 2002, the bid was increased to $18,900,000. The take-over bid has not received the support of Idion management and is subject to shareholder approval and South African regulatory approval. As of March 18, 2002, the Company has acquired 16.6% of the outstanding common shares of Idion at a total cost of $1,147,000. Should the Company not be successful in completing the transaction, the sale of these shares could result in a gain or loss depending on the circumstances in which they are sold and are subject to foreign exchange and other risks.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

P. Kirk Dixon
Secretary and Executive Vice President, Global Operations

Donald L. Lenz (1) (3)
President, SELDM Ltd.

Matthew A. Ocko (2) (3)
Partner, VantagePoint Venture Partners and Managing Director, Archimedes Capital LLC

Bryan E. Plug (1) (2)
Chief Executive Officer, Kintana, Inc.

Keith Powell
Principal, Keith Powell Consulting Inc.

Nigel W. Stokes (3)
Chairman, President and Chief Executive Officer

Donald Woodley (1)
President, The Fifth Line Enterprise

E. Herman Wallenburg
Chief Scientist

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance Committee

EXECUTIVE OFFICERS

Nigel W. Stokes
Chairman, President and Chief Executive Officer

P. Kirk Dixon
Secretary and Executive Vice President, Global Operations

E. Herman Wallenburg
Chief Scientist

Peter Cauley
Vice President Finance and Chief Financial Officer

Angelo Lai
Vice President, Asia Pacific

Stewart Ritchie
Vice President, Sales, Americas

Donald G. Symonds
Vice President, EMEA

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COMMON SHARES

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol DMC and on the NASDAQ National Market under the symbol DMCX.

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